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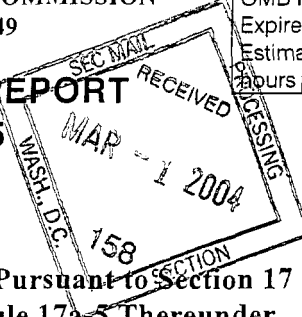


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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT**  
**FORM X-17A-5**  
**PART III**



OMB APPROVAL	
OMB Number:	3235-0123
Expires:	October 31, 2004
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8- 50875

FACING PAGE  
Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: PBHG FUND DISTRIBUTORS

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1400 LIBERTY RIDGE DRIVE

(No. and Street)

WAYNE, PA

(City)

19087-5593

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

TERESA A. SIMONETTI

610-578-1429

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KPMG LLP

(Name - if individual, state last, first, middle name)

99 HIGH STREET

(Address)

BOSTON

(City)

MA

(State)

02110

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

**PROCESSED**

**MAR 29 2004**

**THOMSON  
FINANCIAL**

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

*[Handwritten signature]*

# OATH OR AFFIRMATION

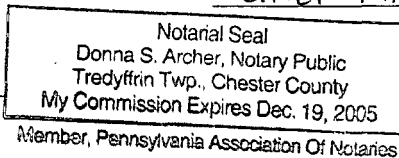
I, JAMES W. Cook, ~~swear~~ (affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PBHG FUND DISTRIBUTORS, as of FEBRUARY 23, 2004, are true and correct. I further ~~swear~~ (affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Commonwealth of Pennsylvania } ss:  
County of Chester

[Signature]  
Signature

CHIEF FINANCIAL OFFICER/FINOP  
Title

Donna S. Archer  
Notary Public



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



**PBHG FUND DISTRIBUTORS**  
(A Wholly Owned Subsidiary of Pilgrim Baxter and Associates, Ltd.)  
Financial Statements with Supplementary Information  
December 31, 2003  
(With Independent Auditors' Report Thereon)



KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

## Independent Auditors' Report

The Board of Trustees  
PBHG Fund Distributors:

We have audited the accompanying balance sheet of PBHG Fund Distributors (the Company) as of December 31, 2003, and the related statements of operations, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PBHG Fund Distributors at December 31, 2003, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 of the Securities Exchange Act of 1934. Such information has been subjected to the audit procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

February 26, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

**PBHG FUND DISTRIBUTORS**  
(A Wholly Owned Subsidiary of Pilgrim Baxter and Associates, Ltd.)

Balance Sheet

December 31, 2003

**Assets**

Cash and cash equivalents	\$ 1,333,013
Commissions receivable from affiliate	23,305
Prepaid registration fees	<u>92,409</u>
Total assets	<u>\$ 1,448,727</u>

**Liabilities and Stockholder's Equity**

Liabilities:	
Commissions payable	<u>\$ 53,545</u>
Commitments	
Stockholder's equity:	
Common stock, \$100 par value; authorized 100,000 shares; issued and outstanding 10 shares	1,000
Additional paid-in capital	3,925,122
Accumulated deficit	<u>(2,530,940)</u>
Total stockholder's equity	<u>1,395,182</u>
Total liabilities and stockholder's equity	<u>\$ 1,448,727</u>

See accompanying notes to financial statements.

**PBHG FUND DISTRIBUTORS**  
(A Wholly Owned Subsidiary of Pilgrim Baxter and Associates, Ltd.)

Statement of Operations

Year ended December 31, 2003

Revenues:	
Commissions	\$ <u>194,422</u>
Operating expenses:	
Distribution fees	164,777
Registration fees	75,588
Compensation and related expenses	1,122,129
Other operating expenses	<u>988,035</u>
Total operating expenses	<u>2,350,529</u>
Net loss	\$ <u><u>(2,156,107)</u></u>

See accompanying notes to financial statements.

**PBHG FUND DISTRIBUTORS**  
(A Wholly Owned Subsidiary of Pilgrim Baxter and Associates, Ltd.)

Statement of Changes in Stockholder's Equity

Year ended December 31, 2003

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance, December 31, 2002	1,000	619,000	(374,833)	245,167
Net loss	—	—	(2,156,107)	(2,156,107)
Capital contributions	—	3,306,122	—	3,306,122
Balance, December 31, 2003	\$ 1,000	3,925,122	(2,530,940)	1,395,182

See accompanying notes to financial statements.

**PBHG FUND DISTRIBUTORS**  
(A Wholly Owned Subsidiary of Pilgrim Baxter and Associates, Ltd.)

Statement of Cash Flows  
Year ended December 31, 2003

Cash flows from operating activities:	
Net loss	\$ (2,156,107)
Changes in operating assets and liabilities:	
Increase in commissions receivable from affiliate	(10,113)
Decrease in receivable from affiliate	67,529
Increase in prepaid registration fees	(16,470)
Increase in commissions payable	<u>39,709</u>
Net cash used in operating activities	(2,075,452)
Cash flows from financing activities:	
Capital contributions	<u>3,306,122</u>
Net increase in cash	1,230,670
Cash, beginning of year	<u>102,343</u>
Cash, end of year	<u><u>\$ 1,333,013</u></u>

See accompanying notes to financial statements.



## **PBHG FUND DISTRIBUTORS**

(A Wholly Owned Subsidiary of Pilgrim Baxter and Associates, Ltd.)

### **Notes to Financial Statements**

December 31, 2003

#### **(1) Summary of Significant Accounting Policies**

PBHG Fund Distributors (the Company) is a wholly owned subsidiary of Pilgrim Baxter and Associates, Ltd. (PBA), which is a wholly owned subsidiary of Old Mutual (U.S.) Holdings Inc. (OMUSH), which in turn is an indirect, wholly owned subsidiary of Old Mutual, plc, an international financial services group based in London. The Company commenced operations on June 1, 1998. The Company is registered as a broker-dealer under the Securities Exchange Act of 1934 (the Act) and applicable state law, and acts exclusively as principal underwriter and distributor for the PBHG Funds and the PBHG Insurance Series Fund (the Funds) managed by PBA. The Company promotes the sale of shares of the Funds domestically by broker-dealers that are members in good standing of the National Association of Securities Dealers, Inc. The Company prepares its financial statements on an accrual basis.

Income is derived from commissions received from the sale of shares of the Funds managed by PBA. Expenses include those directly related to the Company's wholesale broker-dealer and distribution activities. No allocations are made by PBA for overhead, administrative services, rent, or compensation paid to an employee whose primary duties do not relate to distribution activities.

##### **(a) Cash and Cash Equivalents**

As of December 31, 2003, the Company has \$34,744 of money market funds included as cash equivalents. The remainder of its cash is on deposit with major banks.

##### **(b) Revenue Recognition**

Commission income is accrued as earned based upon fund sales commissions retained by the Company after reallowance to other broker-dealers.

##### **(c) Income Taxes**

The Company utilizes the asset-and-liability method of accounting for income taxes. This method requires the recognition of deferred tax assets and liabilities for the expected future consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than anticipated changes in the tax law or rates.

The net loss of the Company is included in the consolidated federal income tax return of OMUSH. The Company will not be compensated by OMUSH for the use of the net loss in the consolidated federal income tax return that is used to offset income of other members of the group. The loss carryforward reported in note 6 is shown as if the Company is a stand-alone entity. This loss may be fully utilized by OMUSH in the current or future years. The Company is organized as a business trust in the Commonwealth of Pennsylvania and is exempt from state income taxes.

##### **(d) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts and disclosures reported in the accompanying financial statements. Actual results could differ from those estimates.

## PBHG FUND DISTRIBUTORS

(A Wholly Owned Subsidiary of Pilgrim Baxter and Associates, Ltd.)

### Notes to Financial Statements

December 31, 2003

#### (2) Stockholder's Equity

The Company has 100,000 shares of common stock authorized, 10 of which are issued and outstanding. PBA intends to provide capital contributions to the Company as necessary for it to maintain compliance with minimum net capital requirements.

#### (3) Regulatory Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of a minimum net capital of \$25,000 and maintenance of a ratio of aggregate indebtedness to net capital, both as defined, that shall not exceed 15 to 1. Further, capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2003, the Company had net capital of \$1,297,853, which was \$1,272,853 in excess of the minimum net capital required, and a ratio of aggregate indebtedness to net capital of 0.04 to 1.

At December 31, 2003, the Company is exempt from the provisions of Rule 15c3-3 (under paragraph k(2)(i) of such rule) of the Act as it is a broker-dealer that deals solely in mutual fund shares and promptly transmits all customer funds and delivers all securities received in connection with its broker-dealer activities.

#### (4) Related-Party Transactions

Certain payroll and other expenses directly related to the Company's wholesale broker-dealer and distribution activities are paid directly by PBA. When these expenses are paid by PBA, the Company records a capital contribution.

As the Company is a member of a group of affiliated companies, it is possible that the terms of certain of the related-party transactions are not the same as those that would result from transactions among wholly unrelated parties.

#### (5) Commitments and Contingent Liabilities

The Company may be subject to legal proceedings and claims that may have arisen in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions, if any, will not materially adversely affect the results of operations or financial condition of the Company.

#### (6) Income Taxes

The provision for income taxes differs from the federal statutory rate of 34% as follows:

Computed "expected" income tax benefit at statutory rate	\$	(733,076)
Increase (reduction) in income taxes resulting from:		
Change in valuation allowance		860,520
True-up of deferred taxes		(127,444)
Income tax expense	\$	<u>          —  </u>

**PBHG FUND DISTRIBUTORS**  
(A Wholly Owned Subsidiary of Pilgrim Baxter and Associates, Ltd.)

Notes to Financial Statements

December 31, 2003

At December 31, 2003, the Company has gross deferred tax assets and gross deferred tax liabilities as follows:

Deferred tax assets:

Federal net operating loss carryforward	\$ <u>860,520</u>
Gross deferred tax asset	860,520
Less valuation allowance	<u>(860,520)</u>
Net deferred tax asset	\$ <u><u>—</u></u>

**PBHG FUND DISTRIBUTORS**

(A Wholly Owned Subsidiary of Pilgrim Baxter and Associates, Ltd.)

Supplementary Information

Pursuant to Rule 17a-5 of the Securities Exchange Act of 1934

December 31, 2003

The accompanying schedule is prepared in accordance with the requirements and general format of FOCUS Form X-17A-5.

At December 31, 2003, the Company is exempt from the provisions of Rule 15c3-3 (under paragraph k(2)(i) of such rule). Because of this exemption, the Company has not included the schedules "Computation for Determination of Reserve Requirements Under Rule 15c3-3" or "Information for Possession or Control Requirements Under Rule 15c3-3."

See accompanying independent auditors' report.

**PBHG FUND DISTRIBUTORS**

(A Wholly Owned Subsidiary of Pilgrim Baxter and Associates, Ltd.)

Computation of Net Capital Under Rule 15c3-1 of the  
Securities Exchange Act of 1934

December 31, 2003

## Net capital:

Total stockholder's equity	\$ 1,395,182
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## Deduct nonallowable assets:

Commissions receivable from affiliate - distribution fees	4,225
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Receivable from affiliate	—
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Prepaid registration fees	92,409
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	<u>96,634</u>
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Haircut on securities owned	695
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Net capital	<u>1,297,853</u>
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## Aggregate indebtedness

	<u>53,545</u>
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## Computation of basic net capital requirement:

Minimum net capital required: 6-2/3% of total aggregate indebtedness, but not less than \$25,000	25,000
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Excess of net capital over requirement	<u>1,272,853</u>
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Excess net capital at 1,500%	<u>1,294,283</u>
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Excess net capital at 1,000%	<u>\$ 1,292,498</u>
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Ratio of aggregate indebtedness to net capital	<u>0.04 to 1</u>
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There were no material differences between the Company's computation of net capital as reflected on Form X-17A-5, Part IIA and the above computation.

See accompanying independent auditors' report.



KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

**Supplemental Independent Auditors' Report on the Internal Control Structure  
Required by SEC Rule 17a-5**

The Board of Trustees  
PBHG Fund Distributors:

In planning and performing our audit of the basic financial statements of PBHG Fund Distributors as of and for the year ended December 31, 2003, we considered its internal control, including control activities for safeguarding securities in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of such practices and procedures) followed by PBHG Fund Distributors, including test of compliance with such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g), in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e). Since PBHG Fund Distributors does not carry securities accounts for customers or perform custodial functions related to customer securities, we did not review the practices and procedures followed by PBHG Fund Distributors in any of the following:

1. Making quarterly securities examinations, counts verifications, and comparisons;
2. Recordation of differences required by rule 17a-13; and
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of PBHG Fund Distributors is responsible for establishing and maintaining internal control and practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and related practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which PBHG Fund Distributors, Inc. has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand the practices and procedures that accomplish the objective referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003 to meet the SEC's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc., and state and other regulatory agencies which rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered broker-dealers, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

February 26, 2004